PERS NEWS FOR ACTIVE MEMBERS

A PUBLICATION OF THE PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA *January 2005*

BENEFIT CHANGE PROPOSED BY PERS TRUSTEES

Parochial's employer contribution rates for 2005 have been previously announced as 12.75% for Plan A and 5.75% for Plan B. Because investment returns for 2004 have been somewhat lower than the assumed return, another increase in 2006 is possible. However, it will be late May or so before we know the certainty or the scale of an increase.

Employee contribution rates remain 9.5% in Plan A and 3% in Plan B for 2005.

The increased cost of funding these defined benefit retirement plans has been felt by all thirteen of the state and statewide systems. For example, nine of the thirteen plans have employer rates of 14.5% or higher and three have rates above 20%. Further, three plans have a total cost (employer, employee, taxes) in excess of 40% of payroll. Our trustees recognize, however, that we must be concerned with our own plan's cost and circumstances.

The survival of defined benefit retirement plans is a major issue being discussed in board rooms and legislatures across the country. The 114,000 defined benefit plans that existed in 1986 have declined to about 30,000 today. While virtually all of those plans lost are private sector plans, the trend is a powerful one.

Already a discussion of defined contribution plans for public employees has begun in the Louisiana Legislature. It is not apparent that a change is imminent or that significant savings would result. However, California is having serious discussions along the same lines. If this trendsetter state adopts defined contribution plans for its public employees, many elected officials in our state will become more receptive to a change here. Remember that since 1997 fewer legislators, police jurors and parish councilmen are eligible to participate in Louisiana's defined benefit plans.

A related issue is that of mandatory Social Security participation by public employees. President Bush has said that SS reform is a second term priority and the major change proposed, private investment accounts, would have a substantial cost. One concept seen as a source of financing is mandatory participation.

But in several states, including Louisiana, Colorado, Ohio, Illinois and Massachusetts, where few public employees currently contribute to Social Security, such a change would carry drastic consequences for existing defined benefit retirement plans. Combining the cost of Social Security with our retirement plans would effectively require drastic changes in the retirement plans.

While the suggestion of mandatory Social Security has been successfully resisted for a number of years, that resistance will likely be tested this year.

Another important issue is that of a lawsuit filed by the Louisiana Municipal Association against the Firefighters Retirement System. For a number of reasons, not all of which were controllable by FRS trustees, employer contribution rates rose quickly in 2002, 2003 and 2004. That rate is currently 24%.

The LMA chose to attack the problem of higher retirement costs with a lawsuit. The result to this point has been inadequate funding for FRS as some employers are paying older, lower rates while awaiting a court ruling.

A decision from the Louisiana Supreme Court is expected at any time. A favorable ruling to the LMA would be extremely harmful to the FRS.

The significance of this conflict for Parochial is the importance of keeping our plan affordable. Some 260 employers participate in PERS and all have different financial conditions. But keeping retirement costs at an affordable level will discourage those who seek to "remedy" their grievances with a lawsuit.

A final issue is that of the lead time necessary to make changes and for changes to have an impact on our plan. Most plan changes require legislative approval and the Legislature meets for relatively short periods each year. Even with passage, some delay in the effective date of a change is needed to allow members to consider the effect of a change on their circumstances. Even after a change is made effective, there would be some period of time before its effect would be fully felt.

Against this backdrop of multiple strains being placed on our plan, Parochial's trustees believe that meaningful action must be taken. While a number of alternatives have been considered, the trustees have agreed to pursue legislation that will change the definition of final average compensation from the highest 36 consecutive months to the highest 60 consecutive months. Among the alternatives considered, this change has the best relationship of benefit and cost.

For most employees, this change would mean a benefit some 4%-5% lower than the current final average compensation definition produces when the change is fully implemented. Many will see even smaller changes and some no changes at all. Importantly, however, this reduction can be offset by working a bit longer. It is also worth noting that for many years a five year average was used in establishing Parochial's benefit.

If the Legislature will pass this proposal, we will seek an effective date of January 1, 2006. Further, the legislation will include a phase-in of the change. As a result of the phase-in no member will receive a lesser benefit by retiring after the effective date rather than before it. The proposed change would mean simply that after the effective date benefits would accrue slightly slower than before.

Our trustees are aware of the precedent-setting nature of this proposal and no doubt some members will be disappointed. But at the same time the trustees are aware that sitting on their hands is neglectful. The proposed change is seen as a worthwhile step to ensure the long term health of this plan.

Who knows what the future holds? It is possible that other similar measures may be warranted later. But whatever the future may bring, please be assured that Parochial's trustees are up to the task of making hard decisions that are in the long term interest of Parochial members.

KEEP US INFORMED OF ADDRESS AND BENEFICIARY CHANGES

Keeping our office informed of address changes and beneficiary changes is important and simple. A form for making these changes is available from your human resources office, from our office or from our new website at ***www.persla.org.*** The form should be completed and forwarded to our office. Notifying your employer of such changes does not assure that those changes will be made on our records.

HARDSHIP WITHDRAWALS NOT INCLUDED IN PAROCHIAL STATUTES

Our office is often contacted by a member describing some difficult circumstances and requesting to withdraw all or part of their contributions. However, the state statutes that govern our plan provide no "hardship" withdrawal of employee contributions. Funds are paid out to members in the form of contribution refunds in the event of employment termination or in the form of monthly benefits when a member qualifies for retirement. Loans or other withdrawals for personal reasons are not provided for in this plan.

VISIT OUR WEBSITE

Earlier this summer Parochial's website (***www.persla.org***) was activated.

The site has been designed to serve as an informational site rather than an interactive one. Employers, members and retirees will be able to access the following types of information:

1) Copy of the most current Summary of Principal Features
2) Copies of selected forms
3) Copies of recent newsletters
4) Frequently asked questions

We hope you will find the site helpful and we welcome your comments relative to our newest source of information.

MILITARY RESERVISTS WHO ARE CALLED TO ACTIVE DUTY

Military reservists who are called to active duty are granted certain rights by Federal Law with respect to retirement benefits. Simply stated, a reservist participating in Parochial and called to active duty may arrange to make retirement contributions while on active duty or to make those payments, with interest, upon return to Parochial employment. In either case service credit for the period of active duty can be earned.

Another option is to pay no contributions for the period of active duty. By making this choice the period of active duty can be used for eligibility purposes only. If this option is chosen, this period will not be used in the benefit formula. Only service for which contributions are received can be used to calculate a retiree's benefit.

Should you be called to active duty, contact your human resources office before reporting for duty to review your options with regard to Parochial or contact our office at 225-928-1361.

TRANSFERRING SERVICE CREDIT FROM ONE RETIREMENT PLAN TO ANOTHER

One of the most attractive features of the public employee retirement plans in Louisiana is the opportunity a member has to transfer service from one plan to another. When an employee has at least six months of service credit in one state or statewide system, the employee may want to learn the cost, if any, of transferring service credit from another state or statewide system in which he previously held membership to the plan in which he currently participates.

To consider transferring service credit from another Louisiana public fund to Parochial, the Parochial member, who has at least six months of service credit in our system, should first contact our office for an application.

Upon the member's return of a completed form, known as an Application for Transfer of Creditable Service, we will contact the other retirement system. The information we obtain from the other system will enable our actuary to determine what cost, if any, is required for the transfer to occur.

Once we know the cost we will provide you with that information along with an election form. No transfer will take place without your written consent. Depending on the response time from the other system, the process can take from 30-90 days.

When the member considers the out-of-pocket cost to accomplish the transfer to be too high, the member may consider a reciprocal agreement as an alternative. Under a reciprocal agreement, which involves no cost to the member, service credit in two public retirement plans can be combined to meet the eligibility requirements of the more stringent plan. For example, if one plan allows retirement at age 60 with 10 years of service and the other permits retirement at age 60 with 12 years of service, it would be necessary to reach a combined total of twelve years in order to retire under the reciprocal. In this example, once the twelve years has been met, each plan would calculate a benefit based on service credit and earnings while in that plan and benefit payments would be received from both.

Any member with questions about transfers or reciprocal agreements may learn more by calling our office.

SOCIAL SECURITY BENEFITS MAY BE SUBJECT TO AN OFFSET

Plan A members who expect to receive a retirement benefit from Parochial or some other public employee plan should be aware of two offsets that Social Security implements. (Please note that Plan B members are not impacted by the offset because they do contribute to Social Security while employed.)

Although Parochial's retirement benefit is determined by a formula and not subject to a reduction for Social Security, a Social Security benefit to which one of our members is entitled may be subject to an offset.

The first offset, known as the Government Pension Offset (GPO), affects SS benefits you receive as a spouse or widow(er). The offset will reduce the amount of your Social Security spouse's or widow(er)'s benefit by 2/3 of the amount of your government pension. In other words, if you get a monthly Parochial pension of $900, 2/3 of that amount, or $600, is used to offset your Social Security spouse's or widow (er)'s benefit. If you're eligible for a $750 widow (er)'s benefit, you will receive $150 from Social Security ($750-$600=$150).

The other offset is known as the Windfall Elimination Provision (WEP). This reduction affects how your Social Security benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure the SS benefit is modified, lowering the benefit paid by SSA. Essentially, the more years of contributions to Social Security, the less the impact of the WEP.

If you expect to receive a benefit from Parochial *and* Social Security, it is suggested that you visit a nearby SS office to learn of the impact these offsets might have. Being aware of the offsets in advance of retirement can help a member better prepare for the end of their working career.

Remember that the PERS benefit is not impacted by any Social Security benefits that are payable.

"A fanatic is one who can't change his mind and won't change the subject."

— *Sir Winston Churchill*

"Nothing so dates a man as to decry the younger generation."

— *Adlai Stevenson*

REVIEWING THE PROCESS OF REFUNDING CONTRIBUTIONS

Refunds of employee contributions are among the most common activities in our office. However, for those members unfamiliar with the process, there can be some disappointment. Below is a description of the refund process.

When a Parochial member terminates employment, the member is eligible to have employee contributions returned to them.

However, there are certain conditions which must be met before payment is issued.

1) We must receive a completed Refund Request Form signed by the employer and the member.
2) All contributions through the member's last day worked must be received in our office.
3) At least thirty (30) days must elapse between termination and payment.

When these conditions are met checks are issued on the first and fifteenth of each month or on the next business day if the first or fifteenth is a weekend or holiday. In order to prepare checks for mailing on these dates, a cut off date is employed. Thus, it is necessary that the conditions noted above be met at least three business days prior to the first or fifteenth.

If payment is made directly to the member, Federal law requires that we withhold 20%. This amount is paid to Internal Revenue and the following January a 1099R is sent to the member for use in preparing the tax return.

If the refunded amount is being "rolled over" to an Individual Retirement Account for example, the full amount can be paid to the financial institution. No taxes are withheld from a "rollover". However, it is important that we receive a form known as a "Direct Rollover Request Form" from the financial institution handling the rollover. This form will provide us with the payment instructions that we need.

The two chief reasons for delays in processing refunds are the need for the Direct Rollover Request Form and the need to receive contributions from the employer through the member's last day worked. Attention to these requirements can keep the refund process on a timely schedule.

WRITTEN ESTIMATES OF BENEFITS ARE AVAILABLE FROM PERS

The formula for calculating retirement benefits is straightforward: In most cases the number of years of service multiplied by a factor (3% for Plan A, 2% for Plan B) multiplied by the average of the member's best three consecutive years of salary.

However, when a member is within three years of retirement eligibility, a written request for an estimate of benefits may be submitted to our office. This estimate will be researched to provide an accurate account of service credit and to provide benefit amounts for the payment options that are available.

Benefit estimates are also recommended prior to entry into the Deferred Retirement Option Plan (DROP).

The reason for limiting estimates to those within three years of retirement is to assure a degree of accuracy that makes the numbers useful to the member. Our estimates use actual reported salary to date. Combining historical salary information with a presumed retirement date much further out than three years will produce a result that can be sharply different than the actual number will be and, consequently, of questionable value.

A member can make a written request for an estimate through their employer or directly with our office. A response is normally mailed out within five business days.

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